NEWS RELEASE

CALIFORNIA STATE TREASURER PHIL ANGELIDES

FOR IMMEDIATE RELEASE
April 17, 2003

Contact: Mitchel Benson
(916) 653-4052

TREASURER ANGELIDES PROPOSES NEW EQUITY COMPENSATION STANDARDS FOR CORPORATIONS

Angelides Says Standards Will 'Create Long-Term Value' For Corporations and the Economy, While Curbing Excesses in Executive Compensation

SACRAMENTO, CA – California State Treasurer Phil Angelides today proposed new standards for equity compensation plans – including stock options – for the 1,000 largest companies in which the state's two large public pension funds invest their money.

Under the Treasurer's proposal, the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS) – the nation's first and third largest public pension funds – would vote to support equity compensation plans if the plans award less than five percent of the total compensation to the top five executives of the company, and if the plans grant less than 25 percent of the total to executives or directors of the company. In addition, the plans must provide vesting schedules of four years or longer.

Angelides, who sits on the boards of both CalPERS and CalSTRS, said his proposal is designed to encourage corporations to offer broad-based equity compensation plans for all their employees – and not just top executives – and to curb the excesses in executive compensation that have undermined confidence in the nation's financial markets. Many independent experts say that such a broad-based approach results in greater long-term corporate value, increased productivity, and higher, sustained yields to investors.

"It's simple: Broad-based equity compensation plans create enduring value for the corporations that adopt them," Angelides said. "Perhaps just as important, they are good for the economy as a whole – they give workers the opportunity to participate in economic growth and they restore a sorely needed sense of fairness to our financial markets."

The Treasurer's proposed equity compensation guidelines come at a pivotal time. New rules, proposed in October 2002 to the Securities and Exchange Commission (SEC) by the New York Stock Exchange and the NASDAQ Stock Exchange, will require shareholders like CalPERS and CalSTRS to approve equity compensation plans for listed corporations. The SEC is expected to act on these proposals shortly. In addition, Angelides' proposal comes in the wake of newly released studies that show that compensation for corporate executives climbed in 2002, even as stock prices continued to drop.

915 CAPITOL MALL, ROOM 110, SACRAMENTO, CA 95814 ● (916) 653-2995 ● FAX (916) 653-3125
www.treasurer.ca.gov

“Shareholders must be willing to reward sustained performance and the creation of value,” Angelides said. “At the same time, we must oppose compensation plans that benefit only executives, at the expense of shareholders.” The Treasurer also expressed concern about other approaches to executive compensation, such as the proposed expensing of options, which he says run counter to the goals of productive innovation and long-term growth.

Angelides pointed out that some of the country’s most successful businesses already follow the broad-based approach to equity compensation he proposed today. He pointed to Intel Corp., for example, as a well-managed company and active proponent of strong corporate governance that has one of the nation’s most aggressive stock option distribution plans. Intel awarded less than two percent of its options to its top five executives last year, and has a policy that says the top five should not receive more than five percent of the options granted in any given year.

“Expensing stock options won’t solve the problem of excessive compensation, nor will it serve to give shareholders additional clarity into the financial health of the company, said Intel Chief Executive Officer Craig Barrett. “Our broad-based employee option program has been and continues to be a key element of Intel’s culture and success. Similarly, we’ve limited grants to top executives for years, and I applaud the Treasurer for taking a bold step in the right direction and seeking to highlight the real issue.”

In addition to announcing the equity compensation proposal for CalPERS and CalSTRS, the Treasurer also released a letter he is sending to the chief executive officers of the nation’s 100 largest companies, and to institutional investors, including state treasurers and public pension funds, calling on them to support his guidelines.

“Achieving lasting reforms, long-term market stability, and sustained economic growth,” Angelides wrote, “will require a concerted effort by public and private sector leaders.”

Attachments:
--Letter to CEOs and institutional investors
--Letters to CalPERS and CalSTRS
--Fact Sheet
--Equity Compensation Plan Guidelines

915 CAPITOL MALL, ROOM 110, SACRAMENTO, CA 95814 ● (916) 653-2995 ● FAX (916) 653-3125
www.treasurer.ca.gov

STATE OF CALIFORNIA *Philip Angelides, Treasurer*

OFFICE OF THE TREASURER
P. O. BOX 942809
SACRAMENTO, CA 94209-0001

Proposed Equity Compensation Guidelines for the Largest 1,000 Corporations* in which CalPERS and CalSTRS Invest

Support plans that:

1) Grant less than 5 percent of the total equity compensation to the top five executives of the company, and

2) Grant less than 25 percent of the shares awarded under the plan to executives or directors of the company, and

3) Provide a vesting schedule that is equal to or longer than a four-year linear vesting program.

Guidelines for voting on plans for corporations smaller than the largest 1,000 corporations shall reflect factors relevant to smaller corporations, such as the number of employees.

These proposed equity compensation guidelines shall be in addition to the existing CalPERS and CalSTRS policies, such as those with respect to dilution.

*The largest 1,000 corporations represent about 85% of the public equity market capitalization.

STATE OF CALIFORNIA Philip Angelides, Treasurer

OFFICE OF THE TREASURER
P.O. BOX 942809
SACRAMENTO, CA 94209-0001

Broad-Based Employee Compensation Plans Create Added Long-Term Value and Produce Sustained Shareholder Returns

Fact Sheet

- Rutgers professors Joseph Blasi and Douglas Kruse, with *Business Week* writer Aaron Bernstein, found that companies dispensing significantly larger than average option grants to their top five executives produced lower total returns to shareholders than those with broad-based equity plans: "From 1993 to 2001, the one-quarter of companies that gave the smallest shares of options to top management gave their investors a 31.3% annual return. Shareholders of the one-quarter of companies that gave disproportionately to top executives received only a 22.5% return." (*In the Company of Owners: The Truth About Stock Options and Why Every Employee Should Have Them,* Basic Books, New York, 2003).

- Companies with broad-based equity plans were seven percent more productive than those without them, controlling for industry trends. (*Public Companies with Broad-Based Stock Options: Corporate Performance from 1992-1997,* by Professors Blasi, Kruse, Sesil and Kroumova, The National Center for Employee Ownership, October 2002).

- American companies also report productivity improvements after implementing stock participation plans, with sales growing "at a rate 3.4% higher per year, relative to pre-ownership performance." (*Do Broad-Based Stock Options Create Value?* by Jerry Newman and Melissa Waite, Compensation and Benefits Review, Vol. 30. No. 4, 1998).

- A recent *New York Times* survey found that a glance at the largest companies that gave fewer than 5 percent of stock options to their top five executives reveals some of the most widely respected corporations in the country: Intel, Coca-Cola, Hewlett-Packard, Johnson & Johnson and Proctor & Gamble. As the *Times* points out, "Even a glance at the list of companies that have recently given more than 20% of their options to their top five executives in a single year makes the point." It includes Tyco, Sprint, Qwest, and Tenet Healthcare. (*Option Math: Why So Many to So Few?* by David Leonhardt, The New York Times, February 16, 2003).

- A recent review of stock option awards at the 250 largest U.S. companies found that at the 25th percentile, the top five executives were awarded 7% of total options granted; at the median, the top five were awarded 12%; and at the 75th percentile, the top five were awarded 21% (*Stock Options at the Top*, By Frederic W. Cook & Co., Inc., January 2, 2003).

- "If you sum up all the studies done just in the past two decades or so, they show that even corporate America's limited experiments with [broad-based employee ownership] produce a one-time, but permanent, boost to a company's productivity of about four percentage points, compared to what it would have been without employee ownership." *(In the Company of Owners: The Truth About Stock Options and Why Every Employee Should Have Them,* Basic Books, New York, 2003).

April 17, 2003

TO: CEOs
Institutional Investors, including State Treasurers and public pension funds

Dear :

As California's chief investment officer and as a trustee of more than $220 billion in pension funds, I believe that meaningful corporate reform measures must be put in place to renew the faith and confidence of investors and to sustain our country's long-term economic progress. In the wake of revelations about corporate practices which have shaken the foundations of our financial system, corporate leaders and shareholders must join together in adopting compensation policies that reward the creation of long-term corporate value, restore a sense of fairness in the marketplace, and strengthen our economy.

In October 2002, new rules were proposed to the Securities and Exchange Commission (SEC) by the New York Stock Exchange and the NASDAQ Stock Exchange that will require shareholder approval of equity compensation plans for corporations listed on their respective exchanges. Hopefully, the SEC will act on these proposals shortly, making timely the subject of this correspondence.

These new rules will present an extraordinary opportunity for both management and shareholders to craft equity compensation plans that contribute to a company's long-term strength and value and that curb the excesses that have undermined investor confidence. I have been a strong advocate of equity compensation plans, such as broad-based stock option programs, which reward effective leadership, create a culture of sustained performance, and benefit the larger workforce and not just executives. I am concerned about proposals – such as the expensing of options – that will curtail the adoption of broad-based plans that contribute to productive innovation and long-term growth. I believe that granting shareholders the right to approve equity compensation plans is the sensible way to promote best practices in executive compensation and to halt abuses which have harmed our economy.

There is increasing evidence that broad-based equity compensation plans create added corporate value and produce higher, sustained returns to shareholders (please see the attached fact sheet). Such plans, which benefit a broad band of workers, can also contribute to a renewed belief in the fairness of our economy. That is why I am writing you today to urge you and other corporate executives and pension fund managers to support new standards for equity compensation plans.

Specifically, I hope that you will support the attached policies to promote best practices in equity compensation plans. I have proposed that these policies be adopted as voting guidelines by the pension funds on whose boards I sit – the California Public Employees' Retirement System (CalPERS) and the California State Teachers' Retirement System (CalSTRS), the first and third largest public pension funds in the country.

Achieving lasting reforms, long-term market stability, and sustained economic growth will require a concerted effort by public and private sector leaders. It is in this vein that I respectfully urge your consideration and support of broad-based equity compensation programs, consistent with the attached guidelines.

Please feel free to contact my office if you would like to discuss this matter further. Thank you for your consideration.

Sincerely,

Phil Angelides
State Treasurer

Enclosure

April 16, 2003

Mr. Rob Feckner
Chair, Investment Committee
California Public Employees' Retirement System
P.O. Box 942701
Sacramento, California 94229-2701

Dear Mr. Feckner:

The events of the past two years have shaken the faith of investors in the integrity of our financial system and in the fairness of our economy. As the largest public pension fund in the country, CalPERS has the opportunity and responsibility to continue its leadership role in achieving the financial market and corporate reforms that will assure long-term economic security for pensioners and taxpayers and that will contribute to our future national prosperity. As you are aware, CalPERS has identified executive compensation as a top priority policy issue.

Today, a growing body of scholarly work documents that the adoption of broad-based employee compensation plans, rather than plans more narrowly focused on just the top executives, create added long-term corporate value, produce higher returns to shareholders, and strengthen our economy. For example, according to a recent study by Rutgers professors Joseph Blasi and Douglas Kruse, with *Business Week* writer Aaron Bernstein, "from 1993 to 2001, the one-quarter of companies that gave the smallest shares of options to top management gave their investors a 31.3% return. Shareholders of the one-quarter of companies that gave disproportionately to top executives received only a 22.5% return." (Please see the attached fact sheet.)

Upcoming action by the Securities and Exchange Commission (SEC) will hopefully grant shareholders the right to vote on equity compensation plans. In October 2002, new rules were proposed by both the New York Stock Exchange and NASDAQ Stock Exchange that would require shareholder approval of equity compensation plans for corporations listed on their respective exchanges. In anticipation of this action, CalPERS has an historic opportunity to adopt new voting standards that support compensation plans that contribute to a company's long-term strength and value, and which curb the excesses that have undermined investor confidence.

Attached, for your consideration, are proposed guidelines for casting shareholder votes on equity compensation plans for the largest 1,000 companies in which CalPERS invests. I would urge CalPERS to adopt this proposal.

According to *Business Week*, the average CEO of a major corporation made 42 times the average hourly worker's pay in 1980, 85 times the average hourly worker's pay in 1991, and a staggering 531 times the average hourly worker's pay in 2000.

Last year, layoffs at U.S. companies soared, the S&P 500 Index declined 22% and investors pulled more than $27 billion from stock mutual funds. And yet, according to a recent analysis by Equilar Inc., which tracks executive compensation, the median of CEO cash earnings at 333 companies surveyed last year rose 15% to $1.74 million, compared with $1.51 million in 2001. Another recent survey, conducted for the New York Times, drew similar conclusions, finding that the median amount of direct compensation of chief executives at 200 large companies grew 17% last year, to $3.16 million.

In the context of such statistics, it is clear that the adoption of equity compensation plans that are consistent with the attached proposal – which reward effective corporate leadership, create a culture of sustained performance, and benefit the larger workforce – would represent an important step in restoring investor confidence and rationality to the realm of executive compensation.

I would respectfully request that you place this proposal on the Investment Committee agenda in the near future. As always, please call me, or Deputy Treasurer Ted Eliopoulos, at (916) 653-2995, if you would like to discuss this matter further.

Thank you for your consideration of this matter.

Sincerely,

Phil Angelides
State Treasurer

Enclosures

cc: Honorable Members, CalPERS Investment Committee
Fred Buenrostro, Chief Executive Officer, CalPERS
Mark Anson, Chief Investment Officer, CalPERS

April 16, 2003

Mr. Gary Lynes
Chair, Investment Committee
California State Teachers' Retirement System
P.O. Box 15275
Sacramento, CA 95851-0275

Dear Mr. Lynes:

The events of the past two years have shaken the faith of investors in the integrity of our financial system and in the fairness of our economy. As the third largest public pension fund in the country, CalSTRS has the opportunity and responsibility to continue its leadership role in achieving the financial market and corporate reforms that will assure long-term economic security for pensioners and taxpayers and that will contribute to our future national prosperity. As you are aware, the system has identified executive compensation as a top priority policy issue for discussion in 2003.

Today, a growing body of scholarly work documents that the adoption of broad-based employee compensation plans, rather than plans more narrowly focused on just the top executives, create added long-term corporate value, produce higher returns to shareholders, and strengthen our economy. For example, according to a recent study by Rutgers professors Joseph Blasi and Douglas Kruse, with *Business Week* writer Aaron Bernstein, "from 1993 to 2001, the one-quarter of companies that gave the smallest shares of options to top management gave their investors a 31.3% return. Shareholders of the one-quarter of companies that gave disproportionately to top executives received only a 22.5% return." (Please see the attached fact sheet.)

Upcoming action by the Securities and Exchange Commission (SEC) will hopefully grant shareholders the right to vote on equity compensation plans. In October 2002, new rules were proposed by both the New York Stock Exchange and NASDAQ Stock Exchange that would require shareholder approval of equity compensation plans for corporations listed on their respective exchanges. In anticipation of this action, CalSTRS has an historic opportunity to adopt new voting standards that support compensation plans that contribute to a company's long-term strength and value, and which curb the excesses that have undermined investor confidence.

Attached, for your consideration, are proposed guidelines for casting shareholder votes on equity compensation plans for the largest 1,000 companies in which CalSTRS invests. I would urge CalSTRS to adopt this proposal.

According to *Business Week*, the average CEO of a major corporation made 42 times the average hourly worker's pay in 1980, 85 times the average hourly worker's pay in 1991, and a staggering 531 times the average hourly worker's pay in 2000.

Last year, layoffs at U.S. companies soared, the S&P 500 Index declined 22% and investors pulled more than $27 billion from stock mutual funds. And yet, according to a recent analysis by Equilar Inc., which tracks executive compensation, the median of CEO cash earnings at 333 companies surveyed last year rose 15% to $1.74 million, compared with $1.51 million in 2001. Another recent survey, conducted for the New York Times, drew similar conclusions, finding that the median amount of direct compensation of chief executives at 200 large companies grew 17% last year, to $3.16 million.

In the context of such statistics, it is clear that the adoption of equity compensation plans that are consistent with the attached proposal – which reward effective corporate leadership, create a culture of sustained performance, and benefit the larger workforce – would represent an important step in restoring investor confidence and rationality to the realm of executive compensation.

I would respectfully request that you place this proposal on the Investment Committee agenda in the near future. As always, please call me, or Deputy Treasurer Ted Eliopoulos, at (916) 653-2995 if you would like to discuss this matter further.

Thank you for your consideration of this matter.

Sincerely,

Phil Angelides
State Treasurer

Enclosures

cc: Honorable Members, CalSTRS Investment Committee
Jack Ehnes, Chief Executive Officer, CalSTRS
Chris Ailman, Chief Investment Officer, CalSTRS